NEVADA APPEAL

Nevada lawmakers to struggle with retiree health plan funding

Liability of up to $4.1B in health benefits for current, future state government workers looms

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A huge, long-term liability of up to $4.1 billion in health benefits for current and future state government workers is shaping up as one of the big issues facing the 2007 Nevada Legislature.

Potential solutions to reduce the liability range from state appropriations of $200 million or more per year for some 30 years to smaller appropriations of taxpayer dollars coupled with moneysaving limits on benefits, higher premiums and reduced pay raises for state employees.

Not acting to reduce the unfunded liability in the Public Employees' Benefit Program isn't seen as much of an option. Beginning in fiscal 2007, all states must report unfunded liabilities, and Wall Street bond-rating agencies will be taking note.

If states with large unfunded liabilities aren't doing much to reduce them, a bond-rating agency could downgrade their ratings. That could cost Nevada untold millions in higher interest paid on borrowed money.

State Sen. Mark Amodei, R-Carson City, who chaired an interim study panel on the benefits program, said that "without question" the liability question will be a dominant issue during the upcoming legislative session - and there are no easy answers.

"It's hard shoveling no matter what end of the pile you go to," he said.

Amodei said the need for state dollars to start reducing the liability could cut heavily into any surplus money available for individual lawmakers' requests for projects in their districts.

The liability estimate, ranging from $1.62 billion to $4.1 billion, came from Aon Consulting of San Francisco. The amounts represent what's needed to cover health benefits in a program that now covers about 25,000 active state employees and 12,000 retirees and others.

Nevada, like many other states, is on a pay-as-you-go system, setting aside enough money every legislative session to help pay for health care premiums for a two-year period.

Gov. Kenny Guinn raised the liability issue in the 2005 session when he argued unsuccessfully for a bill to block future state employees from participating in the health care plan after retiring - unless they paid the insurance premiums themselves.

Guinn, who said his plan would save the state $500 million over 30 years, is leaving office after two terms, but is sending his plan to the 2007 Legislature anyway in hopes that it will be included in the debate over the looming funding crisis.

"We feel the issue is ripe for further discussion, so we sent it over to be included in the mix," said Guinn's chief of staff, Keith Munro. "The governor feels that we have an obligation to look at the economic realities of this. You can't just ignore it."

"If the unfunded liability is going to be listed on our balance sheet, we have to figure out a way to pay for it or change the way we do business," Munro said. "In private industry, this benefit is rare. And it's hard to have taxpayers pay for something for state workers that they can't get themselves."

Dennis Mallory of the State of Nevada Employees Association said a state appropriation to help "pre-fund" future health benefit costs would mirror what the state has done with its separate pension plan for state government workers - a plan he said is one of the best in the nation.

One way to kick-start the prefunding would be to have state workers hoping for a 4 percent pay raise settle for half that and have the saved money set aside for reducing the liability. The workers' share could be matched by the state, Mallory said.

Another concept would be to give new employees the option of receiving larger paychecks instead of benefits. Mallory said that would give workers a choice - as opposed to the Guinn plan, which would only let them stay in the benefits plan after retirement by paying skyrocketing premiums.

Mallory said the concern about the unfunded liability has been "blown way out of proportion." Because most states are facing the same issue, he said it's likely that the bond-rating companies are going to look favorably at those "that are moving in the right direction. As long as they're progressing, they're going to be fine."

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